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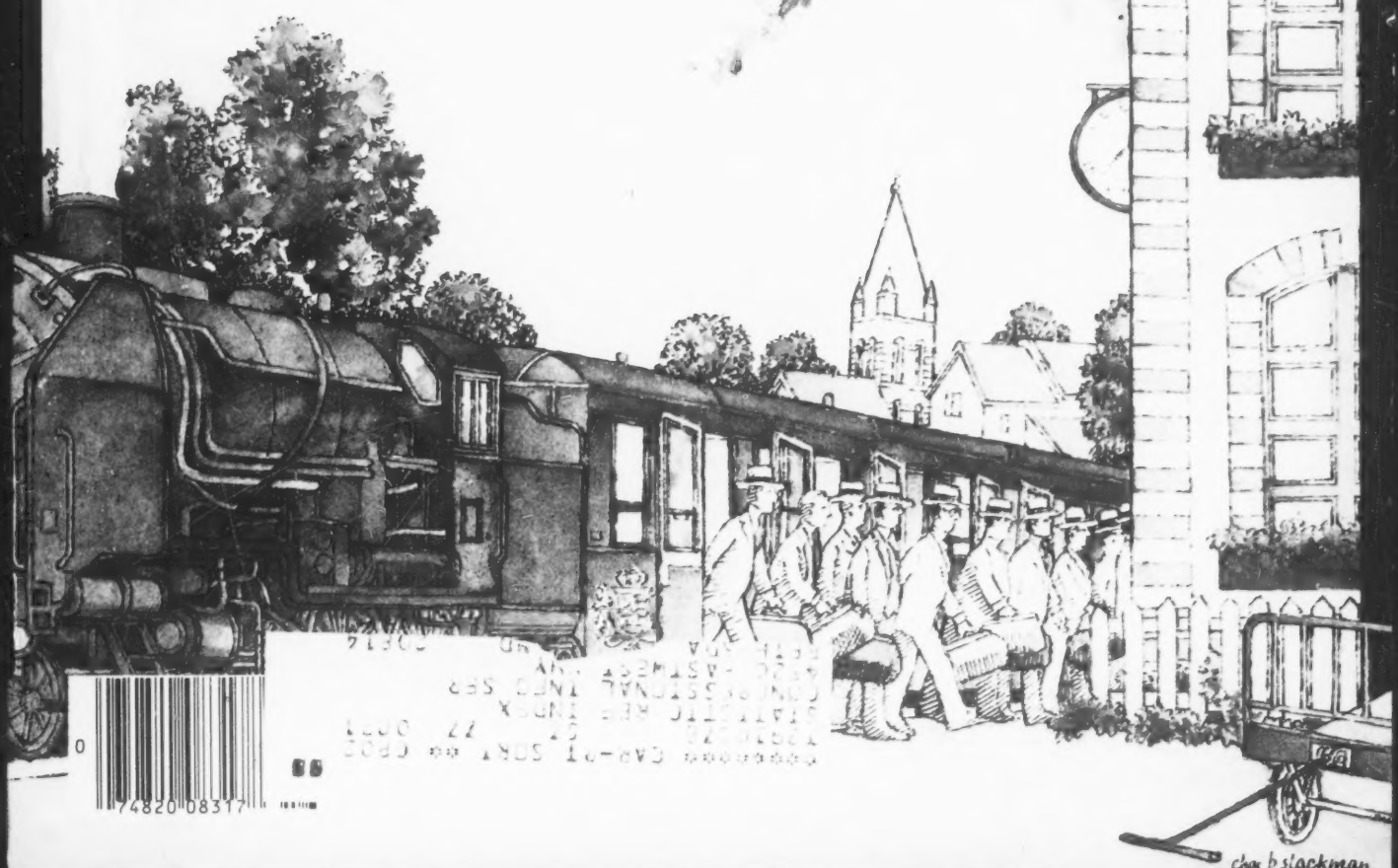
"BLIND 'EM & ROB 'EM"
THE SAGA OF BROKER MEYER BLINDER

APRIL 20, 1987 THREE DOLLARS FIFTY CENTS

Forbes

CAN'T GET A SWISS BANK ACCOUNT?

TRY LUXEMBOURG



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Forbes

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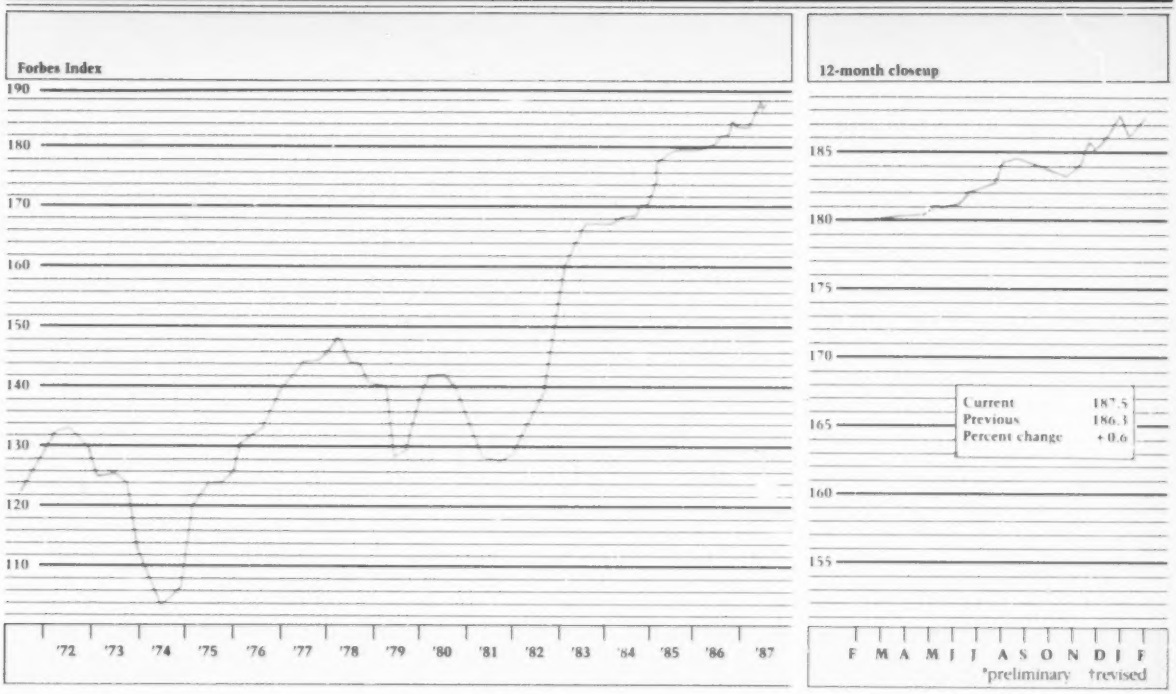
The Forbes Index



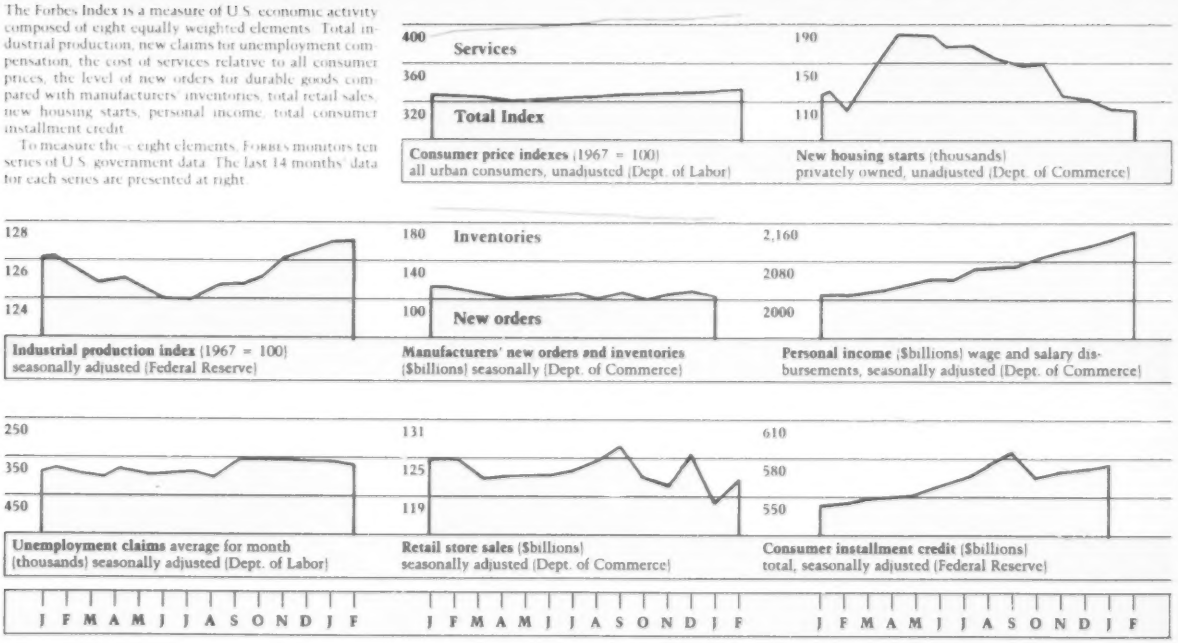
The color of money. Personal income ratcheted up 0.8% in February, to $2.1 trillion, the sharpest monthly gain since November 1985. Industrial production, which rose in each of the last four months, increased another 0.4% in February—a gain that was led by increased auto production. Personal income and industrial production also helped boost the Index 0.6% during the last two weeks.

Because the economy is service-dominated, one of the components of the Index is the ratio of the cost of services to the total Consumer Price Index. That ratio fell 0.1% in February, but not from any propitious decline in labor costs in the service sector. Rather, the drop was largely because of a pickup in the cost of commodities, such as fruits and vegetables and fuel oil.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure the eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
Services
360
320
Total Index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
128
126
124
180
Inventories
140
100
New orders
2,160
2080
2000
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
131
125
119
610
580
550
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
J F M A M J J A S O N D J F
J F M A M J J A S O N D J F
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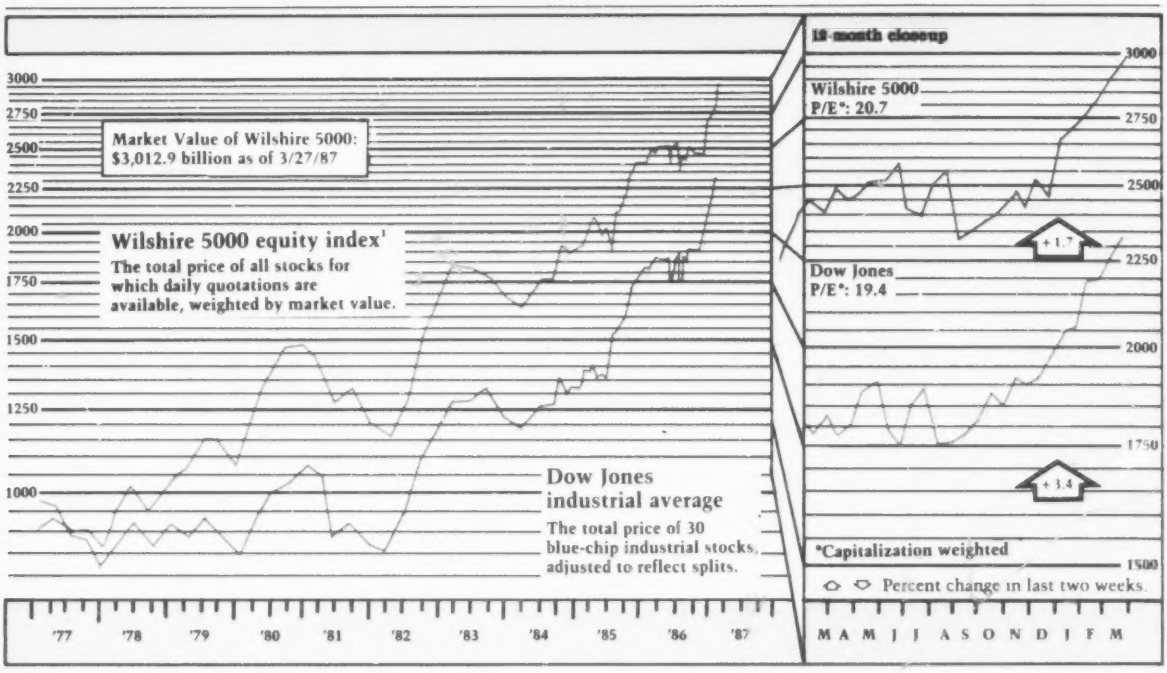
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


12-month closeup
3000
2750
2500
2250
2000
1750
1500
1250
1000
Market Value of Wilshire 5000: $3,012.9 billion as of 3/27/87
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
Wilshire 5000 P/E*: 20.7
Dow Jones P/E*: 19.4
+1.7
+3.4
*Capitalization weighted
Percent change in last two weeks.
'77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87
M A M J J A S O N D J F M

Stocks and inflation. With a gain of 3.4% in the last two weeks, the Dow industrials are trading at 19.4 times latest 12-months' earnings. That is expensive by historical standards, if you accept the theory of an inverse relationship between P/E ratios and inflation rates. As we noted here earlier *(June 20, 1983)*, the sum of the Dow P/E and the inflation rate has, over the past several decades, fluctuated around 20. If this rule of thumb is still valid, current stock prices are reasonable only if inflation stays below 0.6% a year. It could, but the market doubts that it will. CPI futures traded on the Coffee, Sugar & Cocoa Exchange are pegged for a 6.6% rate.

The P/E-plus-inflation number peaked in 1961. Inflation that year was 1%, and the average P/E for the year was 21.7. The Dow P/E hasn't broken 21 since (excluding some aberrations when huge writeoffs depressed the combined Dow earnings figure). Instead, the market P/E went on a downward trend for 13 years.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.7	3.6	5.0	3.9	5.1	2.8
in last 52 weeks	21.2	17.6	28.2	22.3	25.3	17.0

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	2.8	6.8	9.2	4.9	4.2	3.7	2.1	9.6	8.2	3.2	3.4	7.2
in last 52 weeks	22.9	45.4	62.6	28.4	22.5	19.5	14.3	47.3	62.5	22.3	24.6	29.1

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

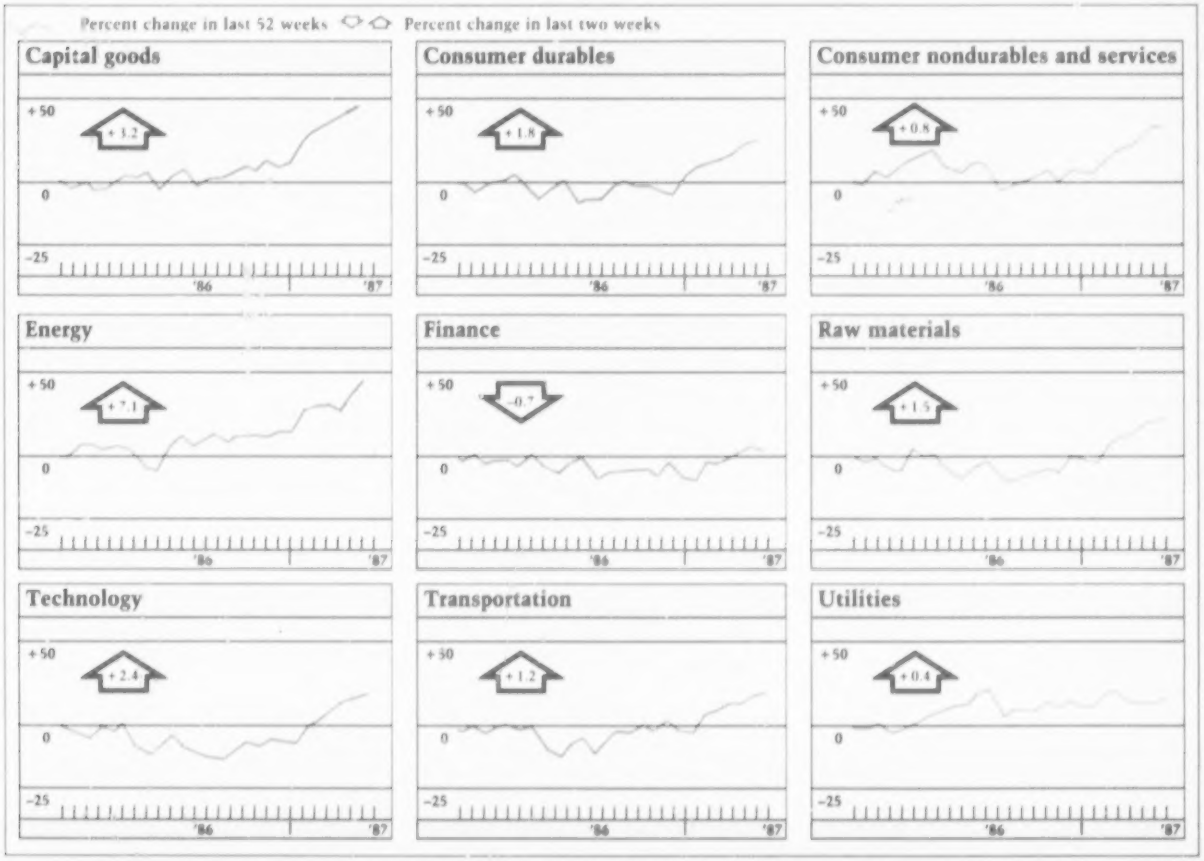
Note: All data for periods ending 3/27/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Geo French

Where The Action Is

A crude awakening. Energy was the hottest sector in March, up 13.9%, compared with 3.7% for the Wilshire index. Standard Oil climbed 16% in response to a handsome $70-per-share tender offer from British Petroleum for the 45% of Standard that BP doesn't own. (John Herold & Co. estimates Standard's breakup value at under $50.) Amerada Hess, up 13%, is also considered a restructuring or takeover candidate.

While the overall market gained 21.2% during the last 52 weeks, the finance sector, hurt primarily by troubled thrifts, managed a paltry 2.5% gain. Contrarians with some patience may find some turnarounds here. The sector is trading at ten times the earnings analysts expect for it this year.



What The Analysts Think

Have we been here before? The most expensive group, energy, is selling at 18.2 times estimated 1987 earnings. In the last two weeks analysts raised their sights even higher, and oil stocks are again attracting interest as takeover plays. But those who have been waiting for an energy turnaround since 1982 may have a feeling of déjà vu.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.58	19.3
1987 estimates	3.54	14.1
1988 estimates	4.25	12.1

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Energy	$2.41	18.2	0.22%	3.30%
2	Capital goods	2.48	17.7	0.20	-0.74
3	Consumer nondurables	2.40	17.7	-0.01	-0.36
4	Raw materials	2.34	17.1	-0.08	0.10
5	Consumer durables	3.50	13.4	-0.40	0.19
6	Utilities	2.89	10.3	-0.64	-1.12
7	Finance	3.61	10.0	-0.64	-0.84
8	Transportation	2.46	14.2	-0.74	-1.01
9	Technology	2.69	16.7	-0.89	-1.14

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/27/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.